

VZCZCXRO1065
PP RUEHPA
DE RUEHPA #0194/01 2881700
ZNR UUUUU ZZH
P R 151700Z OCT 09
FM AMEMBASSY PRAIA
TO RUEHC/SECSTATE WASHDC PRIORITY 1846
INFO RUCPDO/USDOC WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHDK/AMEMBASSY DAKAR 0623
RUEHPA/AMEMBASSY PRAIA 2727

UNCLAS SECTION 01 OF 06 PRAIA 000194

SENSITIVE
SIPDIS

AF/EPS FOR MALLORY, USTR FOR HAMILTON, COMMERCE FOR BOYD,
TREASURY FOR IERONIMO, ITA/MAC FOR LOUCIF

E.O. 12958: N/A
TAGS: [ETRD](#) [ECON](#) [EAGR](#) [ENRG](#) [PHUM](#) [XY](#) [CV](#)
SUBJECT: 2009 AGOA ELIGIBILITY REVIEW FOR CAPE VERDE

REF: STATE 097769

11. SUMMARY: In response to reftel request, post provides the following information on Cape Verde's AGOA Eligibility Report. The full text will also be sent in Word format by e-mail. END SUMMARY

TPSC SUBCOMMITTEE ON AGOA IMPLEMENTATION
COUNTRY ELIGIBILITY RECOMMENDATIONS 2009
STATE SUBMISSIONS

Country: CAPE VERDE

Current AGOA Status: Eligible

COUNTRY BACKGROUND SUMMARY: The Republic of Cape Verde is an archipelago located in the North Atlantic Ocean 300 miles due west of Senegal, off Africa's west coast. Cape Verde has a population of approximately 500,000 people spread over nine inhabited islands. The country's climate is extremely arid, and prolonged drought frequently affects its economy. Only one-tenth of its land is arable. Devastating famine and poor agriculture production has led to a history of emigration.

There are more ethnic Cape Verdeans living abroad than living in Cape Verde, mostly in the United States. This Cape Verdean contingent keeps close ties with its country of origin and contributes substantially to the nation's economy through remittances. Cape Verde's geography, low proportion of arable land, scant rainfall, lack of natural resources, and small population make it a high cost economy, principally because economies of scale in infrastructure and government programs cannot be easily attained. The economy is service-oriented, with commerce, transport, tourism, and public services accounting for more than 60% of GDP. Cape Verde enjoys a multi-party parliamentary democracy. Elections have been free and fair, and the government has generally respected the human rights of its citizens.

Comments on Eligibility Requirements

I. Market-based Economy

A. Major Strengths Identified

- A great effort has been made over the past ten years to promote a market-oriented economic model. Policies have been endorsed and supported by the World Bank, IMF, United States, and many other donors. The government of Cape Verde (GOCV) looks to private investment as the future engine of the country's economic growth, with a focus on export-oriented industries, tourism, transportation services, and attraction of foreign investment.

- The World Bank's October 2009 annual report points to a slight growth in business conditions in Cape Verde. The archipelago moved up by one position on the Doing Business 2010 ranking to 146.

- In 2007-2008, Cape Verde signed a special partnership agreement with the European Union, acceded to World Trade Organization (WTO), and was the second nation ever to graduate

PRAIA 00000194 002 OF 006

from Least Developed Country (LDC) status.

- On July 23, 2008 Cape Verde became WTO's 153rd member after eight years of negotiations. Cape Verde was the first African country and the second LDC to ever join the WTO through a negotiation settlement.

- The country's macroeconomic evolution continues to be monitored by the IMF under a Policy Support Instrument since it was signed in July 2006. According to the October 2009 IMF report, Cape Verde fully achieved its Policy Support Instrument (PSI) objectives, particularly with regard to foreign reserves, and reduction of budget and public debt. Cape Verde's economic and policy performance remains strong and was able to overcome the global financial crisis due to prudent choices in macroeconomic policies that allowed the country to create a buffer through an increase of international reserves and low domestic debt.

- Real GDP growth rate in 2008 was 5.9%, down from 6.7% in 2007, as a result of declining foreign direct investment in the tourism and private investments. Average inflation rose from 4.4% in 2007 to 6.8% in 2008, largely in response to the increase in oil and food prices. In 2010, inflation is expected to remain low based on current predictions for a good harvest in 2009, as well as low food and energy import prices.

- The banking system continued to show strength, according to several indicators of profitability and stability. The low exposure to international market was the resilience factor, however, the sector has some vulnerabilities associated mainly credit risk, heavy reliance on emigrant deposits and excessive

credit exposure in real estate.

- The exchange rate peg continues to serve Cape Verde well as an anchor for financial stability.

- Due to the rapid growth in financial services, the Central Bank continues to work towards strengthening its supervisory capacity in order to maintain the reputation of the country's banking. As a result, the growth of offshore operations will be limited.

- In July 2005, Cape Verde became the third country to sign a five-year Compact with the Millennium Challenge Corporation. The \$110 million Compact supports Cape Verde's overall national development goal of transforming its economy from aid-dependency to sustainable, private-sector led growth. Cape Verde is expected to be the first country to finish successfully the Compact by June 2010. The Compact's funds have been used to improve the country's investment climate and reform the financial sector; improve infrastructure to support increased economic activity and provide access to markets, employment, and social services; and increase agricultural productivity and raise the income of the rural population as well as carry out key policy reforms needed for sustained economic growth.

- Foreign investors receive substantial advantages and fiscal and customs incentives. Over 20 state-owned enterprises have been privatized including the national telecommunications company, the banks, and the power supply company. In 2002 and 2003, the government privatized the public urban transportation company (TRANSCOR) and the food import and distribution company (EMPA). The GOCV intends to move forward with privatization of the port authority (ENAPOR), and the pharmaceuticals distribution company (EMPROFAC); privatization of cold storage facilities for fishing products (INTERBASE) took place in late 2005.

PRAIA 00000194 003 OF 006

- The government has been successful in its fiscal and monetary reforms, particularly with the implementation of a value-added tax (VAT) since January 2004. Although the government reduced the income tax rate in 2008 (up to 10% for individuals and 5% for companies) tax revenue is expected to continue to grow quickly, in line with steady economic growth.

- Procurement processes are open and transparent.

B. Major Issues/Problems Identified

- Cape Verde's economy continues to be highly vulnerable to external factors and dependent on development and donor assistance. Therefore, authorities continue their efforts to ensure ongoing donor support and access to concessional lending as Cape Verde graduated to medium-developed country (MDC) status in January 2008.

- The Government has copyright laws and signed treaties that provide protection for intellectual property rights (IPR), but it has not ratified international agreements on IPR protection.

- The privatization of the national airline, TACV has once again been postponed. The government has still not decided on the privatization of the national airline (TACV), although the company is having serious financial problems the privatization of TACV is a very sensitive issue given the proximity of the legislative and presidential elections.

- Current energy generation continues to be insufficient to meet current needs of the population and therefore inadequate to cover for the projected growth of the tourism industry. Cape Verde is highly dependent on fuel from external sources for energy production.

II. Political Reforms/Rule of Law/Anti-Corruption

1A. Major Strengths Identified

- The law provides for an independent judiciary, and the government generally respects this provision. The constitution provides for the rule of law, due process, fair trials, and equal protection under the law.

- Corruption is criminally punishable, and parliament has added three additional prosecutors to enforce these laws. There is no indication that corruption is a significant problem.

- In 2009, Cape Verde moved up two places in the ranking of the International Transparency report (from 49th to 47th of 180 countries) and continues to have the second leading positions among African nations after Mauritius.

- 2009's Ibrahim Index of African Governance shows Cape Verde as the second best performing country in Africa. Mauritius, Seychelles and Cape Verde were Africa's best-governed countries, according to Harvard University's Kennedy School of Government 2009 Report.

PRAIA 00000194 004 OF 006

- Due to political and social stability, there have been no political or religious conflicts.

- The December 2006 legislative and presidential elections were judged free and fair by international observers, although the need for amendment to the Electoral Code was recognized and a need for stricter voter identification and registration processes.

- Nationwide municipal elections were held in May 2008; the main opposition party made significant gains, and these gains were fully respected.

- Significant reforms were made to the money laundering law reinforcing Cape Verde's determination to combat corruption and drug related crimes.

B. Major Issues/Problems Identified

- The judicial system is overburdened and lengthy delays in trials and lengthy pre-trial detention are common. There were credible reports that police continued to beat persons in custody and in detention, despite Government efforts to stop such practices.

- While there were mechanisms for investigating citizen complaints of police abuse and beatings of detainees, police officers have acted with impunity.

- Although a 1999 constitutional revision mandates the creation of an independent ombudsman with defined powers, no ombudsman has been elected to date.

III. Poverty Reduction

Major Strengths Identified

- Ninety-eight percent of school-aged children are enrolled in school and complete basic compulsory education, with no major difference between rates for boys and girls.

- National Poverty Alleviation Plan enacted with World Bank funding. In March 2002, the IMF/World Bank rated Cape Verde's Interim Poverty Reduction Strategy Paper as "good" and approved a 3-year, \$11 million Poverty Reduction and Growth Facility in April 2003.

- Relative to other African countries, Cape Verde has a lower percentage of population living in poverty, lower HIV/AIDS infection rate, lower birth rate, and longer life expectancy.

- Cape Verde has one of the highest literacy rates of Africa approximately 80%, and among the ages of 15-25 it reaches the 96% rate.

1B. Major Issues/Problems Identified

- Limited data on poverty.

IV. Workers' Rights/Child Labor/Human Rights

1A. Major Strengths Identified

- The Government generally respects the human rights of its citizens.
- The Constitution recognizes core international labor standards and the law prohibits forced or compulsory labor, including by children. The GOCV has ratified ILO Convention 182 on the worst forms of child labor.
- Recent legislation criminalized child trafficking, as well as the use of children in prostitution or pornography. Victims can collect compensation in civil courts.

1B. Major Issues/Problems Identified

- The government seldom enforces labor laws and conducts minimal labor inspections. Workers and children generally do not benefit from the legal protection of labor laws.
- There are no established minimum wage rates in the private sector.
- Child labor remains a problem.
- ILO Convention 138 on minimum age has not been ratified.
- Juveniles are incarcerated together with adults and pre-trial detainees with the general prison population.
- Violence and discrimination against women, domestic violence, child abuse, child labor, and juvenile crime were problems.

1V. International Terrorism/U.S. National Security

1A. Major Strengths Identified

- Full public support for United States; overflight and use of air bases offered in wake of September 11, 2001 attacks. In 2002, the GOCV ratified 10 counterterrorism conventions. The GOCV enacted a strong anti money-laundering law in December 2002.

PRAIA 00000194 006 OF 006

- New security equipment (supplied under the Safe Skies for Africa Program) installed in late 2003/early 2004. Cape Verde received Category 1 status for its civil aviation in September 2003. TACV's (Cape Verde's National Airline) Boeing fleet received ETOPS Certification in 2005.

- European council officials approved in late 2007 the special partnership agreement with Cape Verde. The EU sees this special partnership as advantageous due to Cape Verde's exceptional geopolitical position. Issues of security are of particular interest given that it allows EU to extend its peripheral borders. This partnership also defines the financing procedures through the European Development Fund (EDF) with the approval of the European Investment Bank (EIB).

- Cape Verde continues to cooperate jointly with the United States and Europe in security matters.

B. Major Issues/Problems Identified

None.
STEWART